

Message Text

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FM AMCONSUL JERUSALEM

TO SECSTATE WASHDC IMMEDIATE 7309

C O N F I D E N T I A L SECTION 1 OF 3 JERUSALEM 1368

NODIS

FOR ENDERS (EB) AND LEWIS (S/P) FROM LORD AND RODMAN

E.O. 11652: GDS

TAGS: PFOR, ENG, UNGA

SUBJECT: SECRETARY'S UNGA SPEECH: ECONOMIC SECURITY SECTION

HEREWITH ECONOMIC SECURITY SECTION FOR YOUR CONSIDERATION.
PLEASE TRY TO TIGHTEN, ADD LIFT, AND RESPOND TO
SECRETARY'S QUERIES.

BEGIN TEXT. ECONOMIC SECURITY

1. OUR FIRST TASK IS TO ENSURE BASIC ECONOMIC SECURITY.

2. THE SWINGS AND SHOCKS OF ECONOMIC ADVERSITY ARE A GLOBAL
CONCERN, TEARING AT THE FABRIC OF DEVELOPED AND
DEVELOPING NATIONS ALIKE. UNEMPLOYMENT, FALLING STANDARDS
OF LIVING, AND THE DESTRUCTION OF PURCHASING POWER
BY INFLATION, FUEL A DISCONTENT THAT OUR SOCIAL
AND POLITICAL INSTITUTIONS CANNOT LONG TOLERATE.
THE CYCLE OF GOOD TIMES AND BAD, ABUNDANCE AND FAMINE,
CAN DO VAST DAMAGE TO LIVES AND TO ECONOMIES. WE
HAVE SEEN ITS EFFECTS IN MANY COUNTRIES IN THE
RECENT PERIOD.

3. DEVELOPING ECONOMIES ARE BY FAR THE MOST VULNERABLE.
ALREADY EXISTING PRECARIOUSLY ON A THIN MARGIN
BETWEEN HOPE AND DESPAIR, THEY ARE THE MOST AFFECTED
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BY ECONOMIC DISASTERS NATURAL AND MANMADE, THE

VAGARIES OF WEATHER AND THE SWINGS OF THE BUSINESS CYCLE. RECESSIONS IN THE INDUSTRIAL COUNTRIES DEPRESS THEIR EXPORT EARNINGS. SHARP INCREASE IN THE PRICES OF OIL AND FOOD HAVE A DEVASTATING EFFECT ON THEIR ABILITY TO MAINTAIN MINIMAL STANDARDS OF NUTRITION AND TO OBTAIN FERTILIZER, POWER AND OTHER VITAL IMPORTS TO KEEP THEIR ECONOMIES GOING.

4. SOUND DEVELOPMENT PROGRAMS CANNOT PROCEED, AND THE GREAT EFFORT THAT DEVELOPMENT REQUIRES CANNOT BE SUSTAINED, UNLESS WE CAN AFFORD DEVELOPING COUNTRIES SOME SECURITY AGAINST ECONOMIC INSTABILITY. THIS IS THE MINIMUM REQUIREMENT OF AN EFFECTIVE STRATEGY FOR DEVELOPMENT.

5. BECAUSE ECONOMIC SECURITY IS A GLOBAL PROBLEM, IT IS A GLOBAL RESPONSIBILITY.

--THE INDUSTRIAL NATIONS MUST COORDINATE MORE EFFECTIVELY TO RESTORE AND MAINTAIN THEIR STABLE EXPANSION;

--NATIONS WHICH SUPPLY VITAL PRODUCTS MUST AVOID ACTIONS WHICH DISRUPT THAT EXPANSION; AND

--THE INTERNATIONAL COMMUNITY MUST UNDERTAKE A NEW APPROACH, WHICH I SHALL PROPOSE, TO REDUCE DRASTIC FLUCTUATIONS IN THE EXPORT EARNINGS OF THE DEVELOPING COUNTRIES.

6. FIRST, THE RESPONSIBILITY OF THE INDUSTRIAL COUNTRIES. THE ECONOMIC HEALTH OF THE INDUSTRIAL COUNTRIES IS CENTRAL TO THE HEALTH OF THE GLOBAL ECONOMY. THEREFORE, THEIR EFFORT TO AVOID THE EXTREMES OF RECESSION AND INFLATION -- FROM WHICH WE ARE NOW ONLY BEGINNING TO RECOVER -- BECOMES AN INTERNATIONAL, AS WELL AS A NATIONAL, DUTY.

7. IN A NEW DEPARTURE THIS PAST YEAR, THE LEADERS OF THE CONFIDENTIAL

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UNITED STATES AND ITS MAJOR TRADING PARTNERS HAVE BEGUN CLOSER COORDINATION OF THEIR NATIONAL ECONOMIC POLICIES. A SHARED SENSE OF URGENCY, AND SHARING INFORMATION ABOUT TRENDS AND INTENTIONS, HAVE ALREADY AFFECTED IMPORTANT POLICY DECISIONS. PRESIDENT FORD INTENDS TO CONTINUE AND INTENSIFY CONSULTATIONS OF THIS KIND. THE SUCCESSFUL RECOVERY OF THE INDUSTRIAL ECONOMIES WILL BE THE ENGINE OF INTERNATIONAL

ECONOMIC STABILITY AND GROWTH.

8. THE INTERDEPENDENCE OF THE GLOBAL ECONOMY MEANS, SECONDLY, THAT THE WELL-BEING OF ALL NATIONS IS SIGNIFICANTLY AFFECTED BY THE ACTIONS OF SUPPLIERS OF VITAL PRODUCTS.

9. FOR NEARLY TWO YEARS, THE UNITED STATES HAS BELIEVED THAT THE FUTURE OF THE WORLD ECONOMY THUS REQUIRED A DIALOGUE BETWEEN CONSUMING NATIONS AND PRODUCER NATIONS. IN RECENT MONTHS THE GOVERNMENT OF FRANCE INVITED INDUSTRIALIZED, OIL PRODUCING, AND DEVELOPING NATIONS TO BEGIN A DIALOGUE ON THE PROBLEMS OF ENERGY, DEVELOPMENT, AND RAW MATERIALS. THE UNITED STATES HAS SUPPORTED THIS PROPOSAL AND WE LOOK FORWARD TO A SUCCESSFUL START OF THIS DIALOGUE THIS FALL.

10. BUT THIS DIALGOUE IS PREMISED ON AN APPROACH OF NEGOTIATION AND CONSENSUS, AND NOT THE EXERCISE OF BRUTE ECONOMIC POWER TO GAIN ADVANTAGE AT THE EXPENSE OF OTHERS.

NOTE BY OC/T: HANDLE AS NODIS PER S/S-O - MS. MATTESON.

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FM AMCONSUL JERUSALEM

TO SECSTATE WASHDC IMMEDIATE 7311

C O N F I D E N T I A L SECTION 2 OF 3 JERUSALEM 1368

NODIS

FOR ENDERS (EB) AND LEWIS (S/P) FROM LORD AND RODMAN

THE ENORMOUS AND ARBITRARY 1973 INCREASES IN THE PRICE OF OIL HAVE ALREADY EXACERBATED BOTH INFLATION AND RECESSION WORLDWIDE. THEY HAVE SHATTERED THE ECONOMIC PLANNING AND ASPIRATIONS OF MANY COUNTRIES.

ANOTHER INCREASE WOULD SLOW DOWN OR REVERSE THE RECOVERY OF EVERY NATION REPRESENTED HERE IN THIS ASSEMBLY. IT WOULD BE A SERIOUS BLOW TO THE HOPE OF MILLIONS AROUND THE WORLD FOR AN IMPROVEMENT IN THEIR CONDITION. AND HOWEVER MUCH WE WISH OTHERWISE, IT WOULD ERODE SUPPORT IN THE INDUSTRIAL WORLD FOR ANY MEANS OF ASSISTANCE TO DEVELOPING COUNTRIES.

11. FOR ITS PART, THE UNITED STATES IS PREPARED FOR COOPERATION. THE FAILURE OF INTERNATIONAL COOPERATION WILL DAMAGE US LEAST. BUT WE BELIEVE THE FORTHCOMING DIALOGUE IS A TEST. WE WILL WORK TO MAKE IT SUCCEED, IN THE INTEREST OF ALL NATIONS -- PARTICULARLY THE DEVELOPING NATIONS. WE HOPE TO BE MET IN THAT SPIRIT.

12. STABLE GROWTH IN THE INDUSTRIAL NATIONS AND A COOPERATIVE APPROACH ON RAW MATERIALS SUPPLIES ARE THUS CLOSELY INTERRELATED. IF WE SUCCEED IN THESE AREAS, IT WILL BE TIME TO FOCUS ON THE THIRD BASIC FACTOR OF ECONOMIC SECURITY FOR DEVELOPING COUNTRIES -- THEIR EXPORT EARNINGS.
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13. THE DEVELOPMENT PROGRAMS, AND INDEED THE BASIC SURVIVAL, OF MANY COUNTRIES ARE HEAVILY DEPENDENT ON EARNINGS FROM EXPORTS OF PRIMARY PRODUCTS WHICH ARE HIGHLY VULNERABLE TO FLUCTUATIONS IN WORLDWIDE DEMAND. THEREFORE THEIR PRODUCTION AND PRICES ARE EXTRAORDINARILY VULNERABLE TO ECONOMIC EVENTS ELSEWHERE AND TO NATURAL DISASTERS AND CROP FAILURE. IT IS DIFFICULT TO ADJUST PRODUCTION IN RESPONSE TO DEMAND, AND THEY HAVE LITTLE FINANCIAL RESERVES TO CUSHION AGAINST SHARP DECLINES IN INCOME. THE UNPREDICTABILITY OF THEIR EARNINGS MAKES A MOCKERY OF DEVELOPMENT PLANNING. ECONOMIC INSTABILITY THUS SHAKES THEM FAR MORE SEVERELY THAN IT DOES THE INDUSTRIAL NATIONS.

14. NATURALLY THE QUESTION OF PRIMARY PRODUCTS INCOME HAS NOW BECOME A CENTRAL QUESTION IN THE DIALOGUE ON INTERNATIONAL ECONOMIC CONCERNS. MANY IDEAS HAVE BEEN PROPOSED -- CARTELIZATION, PRICE INDEXATION, COMMODITY AGREEMENTS AND OTHER METHODS. THE UNITED STATES GOVERNMENT HAS COMPLETED A COMPREHENSIVE REVIEW OF ALL DIMENSIONS OF THE PROBLEM AND VARIOUS POSSIBLE SOLUTIONS. ON BEHALF OF PRESIDENT FORD, LET ME SET FORTH OUR PROPOSAL.

15. SOME INDIVIDUAL COMMODITIES PRESENT SEPARATE PROBLEMS

AND THEREFORE ARE SUITED TO SEPARATE ARRANGMENTS.
BUT -- PRECISELY BECAUSE OF THE WIDE DIVERSITY
AMONG COUNTRIES AND COMMODITIES AND MARKET SITUATIONS --
A COMPREHENSIVE APPROACH, FOCUSING ON OVERALL EXPORT
PERFORMANCE, WOULD BE MORE BENEFICIAL. FOR A SIMILAR
REASON WE PROPOSE TO FOCUS ON STABILIZING OVERALL
EXPORT EARNINGS, RATHER THAN THE PRICES OF INDIVIDUAL
COMMODITIES. PRICE-FIXING IS A DISTORTION OF THE
MARKET. IF DEMAND FALLS, IT WOULD INHIBIT PRODUCTION;
IT WOULD REQUIRE DETAILED REGULATION OF PRODUCTION
THAT IS ADMINISTRATIVELY BURDENSOME AND WOULD STUNT,
RATHER THAN PROMOTE, GROWTH. (IMPROVE THIS.)

16. THEREFORE, THE UNITED STATES PROPOSES THAT THE
INTERNATIONAL MONETARY FUND CREATE A NEW DEVELOPMENT
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SECURITY FACILITY OF \$10 BILLION, TO BE USED TO
COMPENSATE FOR SWINGS IN EXPORT EARNINGS OF DEVELOPING
COUNTRIES:

--THE FUND WOULD LOAN THE MONEYS NEEDED TO SUSTAIN
DEVELOPMENT PROGRAMS IN THE FACE OF EXPORT FLUCTUATIONS,
AS MUCH AS \$2.5 BILLION IN INDIVIDUAL CASE IN
A SINGLE YEAR.

--ASSISTANCE WOULD BE AVAILABLE TO ALL DEVELOPING
COUNTRIES UNABLE TO FINANCE SHORTFALLS IN EXPORT
EARNINGS, UNLESS THE SHORTFALLS ARE CAUSED BY THEIR
OWN RESTRAINTS ON PRODUCTION OR EXPORTS. THE POOREST
COUNTRIES WOULD BE PERMITTED TO CONVERT THEIR LOANS
INTO GRANTS UNDER PRESCRIBED CONDITIONS. COUNTRIES
WITH THE BLEAKEST PROSPECTS FOR FUTURE EXPORT GROWTH,
OR SUBJECT TO THE MOST VIOLENT SWINGS IN EXPORT EARNINGS,
WILL RECEIVE SPECIAL ATTENTION (IF THEIR QUOTA IS HIGH
ENOUGH?).

--ELIGIBLE COUNTRIES COULD DRAW UP TO 100 PERCENT
OF THEIR IMF QUOTAS, IN ADDITION TO THEIR NORMAL
DRAWING RIGHTS. MUCH OF THAT COULD BE DRAWN IN A
SINGLE YEAR, IF NECESSARY -- PART AUTOMATICALLY,
AND THE REST SUBJECT TO CERTAIN CONDITIONS. (QUERY:
I ASKED ONCE BEFORE: WHAT DOES THIS IN FACT MEAN
FOR INDIVIDUAL COUNTRIES -- ESPECIALLY THOSE THAT
NEED IT MOST IN DOLLARS?). THE MECHANISM WOULD
REPLACE THE IMF'S PRESENT COMPENSATORY FINANCE FACILITY.

NOTE BY OC/T: EXDIS HANDLE AS NODIS CAPTION DELETED. NODIS
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TO SECSTATE WASHDC IMMEDIATE 7312

C O N F I D E N T I A L SECTION 3 OF 3 JERUSALEM 1368

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FOR ENDERS (EB) AND LEWIS (S/P) FROM LORD AND RODMAN

17. MY COLLEAGUE SECRETARY SIMON WILL PRESENT THE DETAILS OF OUR PROPOSAL TO THE DEVELOPMENT COMMITTEE OF THE IMF. WE HOPE THAT THE NECESSARY CHANGES IN THE FUND ARTICLES CAN BE SETTLED NO LATER THAN EARLY NEXT YEAR. (QUERY: WILL THE SIMON PROPOSAL BE MORE DETAILED THAN THIS IN CONCEPT, AND THUS ARE WE BOTH SPEAKING ABOUT THE SAME THING THE SAME DAY?)

18. THIS MECHANISM WILL PROTECT DEVELOPING COUNTRIES WHOSE EARNINGS ARE UNRELIABLE BECAUSE OF THEIR DEPENDENCE ON EXPORTS OF A FEW VITAL COMMODITIES. BUT IT WILL PROTECT AS WELL THOSE COUNTRIES WITH DIVERSIFIED AND MANUFACTURED EXPORTS WHOSE EARNINGS ALSO FLUCTUATE WITH THE BUSINESS CYCLE. IT ENHANCES THE ECONOMIC SECURITY OF BOTH CONSUMERS AND PRODUCERS. FOR INDUSTRIAL COUNTRIES, IT MEANS A MORE STEADY EXPORT MARKET. FOR DEVELOPING COUNTRIES, IT PROVIDES ASSURANCE THAT DEVELOPMENT CAN BE PURSUED WITHOUT DISRUPTION. THUS ITS SUCCESS WILL DEMONSTRATE OUR INTERDEPENDENCE, AND STRENGTHEN THE FOUNDATION OF GLOBAL PROSPERITY, AS WELL AS OF ECONOMIC DEVELOPMENT. (NOTE: NOVELTY AND SIGNIFICANCE REQUIRE MORE ANALYTICAL MATERIAL. CAN WE HAVE A FEW SENTENCES ON HOW THE CONCEPT OF EARNINGS STABILIZATION CAN PROVIDE CRITERIA FOR REFORM OF ECONOMIC AID?) END TEXT.
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